

NICHOLAS FINANCIAL INC
Form 10-Q
February 08, 2013
Table of Contents

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION

Washington, DC 20549

FORM 10-Q

x **QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**

FOR THE QUARTERLY PERIOD ENDED December 31, 2012

.. **TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**

FOR THE TRANSITION PERIOD FROM TO .

Commission file number: 0-26680

NICHOLAS FINANCIAL, INC.

(Exact Name of Registrant as Specified in its Charter)

Edgar Filing: NICHOLAS FINANCIAL INC - Form 10-Q

British Columbia, Canada (State or Other Jurisdiction of Incorporation or Organization)	8736-3354 (I.R.S. Employer Identification No.)
2454 McMullen Booth Road, Building C Clearwater, Florida (Address of Principal Executive Offices)	33759 (Zip Code)
(727) 726-0763 (Registrant's telephone number, including area code)	

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 and 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter periods that the Registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes No

Indicate by check mark whether the Registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T during the preceding 12 months (or for such shorter period that the Registrant was required to submit and post such files). Yes No

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or a smaller reporting company. See definitions of large accelerated filer, accelerated filer and smaller reporting company in Rule 12b-2 of the Exchange Act.

Large accelerated filer <input type="checkbox"/>	Accelerated filer <input checked="" type="checkbox"/>
Non-accelerated filer <input type="checkbox"/>	Smaller reporting company <input type="checkbox"/>

Indicate by checkmark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act) Yes No

As of February 1, 2013, the registrant had 12,125,889 shares of common stock outstanding.

Table of Contents

NICHOLAS FINANCIAL, INC.

FORM 10-Q

TABLE OF CONTENTS

	Page
<u>Part I.</u>	
<u>Financial Information</u>	
Item 1. <u>Financial Statements (Unaudited)</u>	
<u>Consolidated Balance Sheets as of December 31, 2012 and March 31, 2012</u>	2
<u>Consolidated Statements of Income for the three and nine months ended December 31, 2012 and 2011</u>	3
<u>Consolidated Statements of Cash Flows for the nine months ended December 31, 2012 and 2011</u>	4
<u>Notes to the Consolidated Financial Statements</u>	5
Item 2. <u>Management's Discussion and Analysis of Financial Condition and Results of Operations</u>	11
Item 3. <u>Quantitative and Qualitative Disclosures about Market Risk</u>	20
Item 4. <u>Controls and Procedures</u>	20
<u>Part II.</u>	
<u>Other Information</u>	
Item 1A. <u>Risk Factors</u>	20
Item 6. <u>Exhibits</u>	20

Table of Contents**PART I. FINANCIAL INFORMATION****ITEM 1. FINANCIAL STATEMENTS**

Nicholas Financial, Inc. and Subsidiaries

Consolidated Balance Sheets

	December 31, 2012 (Unaudited)	March 31, 2012
Assets		
Cash	\$ 4,666,656	\$ 2,803,054
Finance receivables, net	246,342,674	242,348,521
Assets held for resale	1,765,303	1,373,001
Income taxes receivable	1,397,461	497,535
Prepaid expenses and other assets	698,396	751,040
Property and equipment, net	757,819	758,784
Deferred income taxes	7,836,774	8,704,099
Total assets	\$ 263,465,083	\$ 257,236,034
Liabilities and shareholders' equity		
Line of credit	\$ 130,500,000	\$ 112,000,000
Drafts payable	1,752,881	1,602,079
Accounts payable and accrued expenses	5,519,069	6,612,429
Interest rate swap agreements	645,772	
Deferred revenues	1,107,712	1,082,475
Total liabilities	139,525,434	121,296,983
Shareholders' equity		
Preferred stock, no par: 5,000,000 shares authorized; none issued		
Common stock, no par: 50,000,000 shares authorized; 12,114,559 and 11,960,975 shares issued and outstanding, respectively	29,708,986	28,426,043
Retained earnings	94,230,663	107,513,008
Total shareholders' equity	123,939,649	135,939,051
Total liabilities and shareholders' equity	\$ 263,465,083	\$ 257,236,034

See accompanying notes.

Table of Contents

Nicholas Financial, Inc. and Subsidiaries

Consolidated Statements of Income

(Unaudited)

	Three months ended December 31,		Nine months ended December 31,	
	2012	2011	2012	2011
Revenue:				
Interest and fee income on finance receivables	\$ 17,878,745	\$ 17,126,855	\$ 52,910,831	\$ 50,950,173
Sales	10,247	13,116	29,196	35,102
	17,888,992	17,139,971	52,940,027	50,985,275
Expenses:				
Cost of sales	3,895	4,051	9,067	9,650
Marketing	362,159	326,324	1,091,989	929,153
Salaries and employee benefits	4,451,546	4,342,797	13,539,636	13,101,109
Administrative	2,233,224	1,951,570	6,599,810	5,853,855
Dividend tax	1,286,694	59,861	1,419,152	119,707
Provision for credit losses	818,903	454,339	1,137,615	711,783
Depreciation	69,998	70,680	212,718	216,217
Interest expense	1,275,015	1,236,866	3,717,386	3,702,737
Change in fair value of interest rate swap agreements	(37,348)		645,772	
	10,464,086	8,446,488	28,373,145	24,644,211
Operating income before income taxes	7,424,906	8,693,483	24,566,882	26,341,064
Income tax expense	2,859,686	3,330,762	9,466,187	10,155,446
Net income	\$ 4,565,220	\$ 5,362,721	\$ 15,100,695	\$ 16,185,618
Earnings per share:				
Basic	\$ 0.38	\$ 0.46	\$ 1.26	\$ 1.38
Diluted	\$ 0.37	\$ 0.45	\$ 1.24	\$ 1.35
Dividends declared per share	\$ 2.12	\$ 0.10	\$ 2.34	\$ 0.20

See accompanying notes.

Table of Contents

Nicholas Financial, Inc. and Subsidiaries

Consolidated Statements of Cash Flows

(Unaudited)

	Nine months ended	
	December 31,	
	2012	2011
Cash flows from operating activities		
Net income	\$ 15,100,695	\$ 16,185,618
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation	212,718	216,217
Gain on sale of property and equipment	(5,615)	(9,925)
Provision for credit losses	1,137,615	711,783
Deferred income taxes	867,325	(145,787)
Share-based compensation	658,707	404,569
Change in fair value of interest rate swap agreements	645,772	
Changes in operating assets and liabilities:		
Prepaid expenses and other assets	52,644	114,925
Accounts payable and accrued expenses	(1,093,360)	(1,360,592)
Income taxes receivable	(899,926)	(719,561)
Deferred revenues	25,237	(33,661)
Net cash provided by operating activities	16,701,812	15,363,586
Cash flows from investing activities		
Purchase and origination of finance receivables	(100,603,313)	(95,949,601)
Principal payments received	95,471,545	87,916,478
Increase in assets held for resale	(392,302)	(683,026)
Purchase of property and equipment	(212,808)	(270,661)
Proceeds from sale of property and equipment	6,670	55,150
Net cash used in investing activities	(5,730,208)	(8,931,660)
Cash flows from financing activities		
Net proceeds from (repayment) line of credit	18,500,000	(2,000,000)
Increase (decrease) in drafts payable	150,802	(432,213)
Payment of cash dividends	(28,383,040)	(2,394,137)
Proceeds from exercise of stock options	422,400	631,063
Excess tax benefits from exercise of stock options and vesting of other share awards	201,836	465,907
Net cash used by financing activities	(9,108,002)	(3,729,380)
Net increase in cash	1,863,602	2,702,546
Cash, beginning of period	2,803,054	2,017,540
Cash, end of period	\$ 4,666,656	\$ 4,720,086

See accompanying notes.

Table of Contents

Nicholas Financial, Inc. and Subsidiaries

Notes to the Consolidated Financial Statements

(Unaudited)

1. Basis of Presentation

The accompanying consolidated balance sheet as of March 31, 2012, which has been derived from audited financial statements, and the accompanying unaudited interim consolidated financial statements of Nicholas Financial, Inc. (including its subsidiaries, the Company) have been prepared in accordance with accounting principles generally accepted in the United States (GAAP) for interim financial information and with the instructions to Form 10-Q pursuant to the Securities and Exchange Act of 1934, as amended in Article 10 of Regulation S-X. Accordingly, they do not include all of the information and footnotes required by GAAP for complete consolidated financial statements, although the Company believes that the disclosures made are adequate to ensure the information is not misleading. In the opinion of management, all adjustments (consisting of normal recurring accruals) considered necessary for a fair presentation have been included. Operating results for interim periods are not necessarily indicative of the results that may be expected for the year ending March 31, 2013. It is suggested that these consolidated financial statements be read in conjunction with the consolidated financial statements and accompanying notes thereto included in the Company's Annual Report on Form 10-K for the year ended March 31, 2012 as filed with the Securities and Exchange Commission on June 14, 2012. The March 31, 2012 consolidated balance sheet included herein has been derived from the March 31, 2012 audited consolidated balance sheet included in the aforementioned Form 10-K.

The preparation of consolidated financial statements in conformity with GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the consolidated financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates. Material estimates that are particularly susceptible to significant change relate to the determination of the allowance for credit losses on finance receivables, and the fair value of interest rate swap agreements.

2. Revenue Recognition

Finance receivables consist of automobile finance installment contracts (Contracts) and direct consumer loans (Direct Loans). Interest income on finance receivables is recognized using the interest method. Accrual of interest income on finance receivables is suspended when a loan is contractually delinquent for 60 days or more or the collateral is repossessed, whichever is earlier.

The amount of future unearned income is computed as the product of the contractual rate, term and amount.

Deferred revenues consist primarily of commissions received from the sale of ancillary products. These products include automobile warranties, roadside assistance programs, accident and health insurance, credit life insurance and forced placed automobile insurance. These commissions are amortized over the life of the contract using the interest method.

The Company's net fees charged for processing a loan are recognized as an adjustment to the yield and are amortized over the life of the loan using the interest method.

The Company attributes its entire dealer discount to a reserve for credit losses. A dealer discount represents the difference between the finance receivable, net of unearned interest of a Contract, and the amount of money the Company actually paid for the Contract including fees, if any. After the analysis of purchase date accounting is complete, any uncollectable amounts would be contemplated in estimating the allowance for loan losses.

Sales relate principally to telephone support agreements and the sale of business forms to small businesses located primarily in the Southeastern United States. The aforementioned sales of the Nicholas Data Services, Inc. subsidiary, (NDS) represent less than 1% of the Company's consolidated revenues.

Table of Contents

Nicholas Financial, Inc. and Subsidiaries

Notes to the Consolidated Financial Statements (Continued)

(Unaudited)

3. Earnings Per Share

Basic earnings per share is calculated by dividing the reported net income for the period by the weighted average number of shares of common stock outstanding. Diluted earnings per share includes the effect of dilutive options and other share awards. Basic and diluted earnings per share have been computed as follows:

**Three months ended
December 31,**

**Nine months ended
December 31,**